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SP612-A Tools for Money Management - Net Worth Statement Instructions

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Recommended Citation

"SP612-A Tools for Money Management - Net Worth Statement Instructions," The University of Tennessee Agricultural Extension Service, 07-0200 SP612A-SM-3/07(Rep) E12-5315-00-032-07, http://trace.tennessee.edu/utk_agexfinman/18

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Tools for Money Management

Net Worth Statement Instructions

*Adapted for Tennessee by Dena Wise, Associate Professor, Family and Consumer Sciences,
in part from "Financial Statements," by Mary J. Stephenson,
University of Maryland Cooperative Extension Service*



At a glance...

This money management tool, the Net Worth Statement, provides instructions for calculating your wealth. Your wealth is the fair market value of your current assets (what you own) minus your current liabilities (what you owe). Use these instructions with the "Net Worth Statement Worksheet."



What this money management tool can do for you...

A net worth statement can help you measure progress toward long-term financial goals. Net worth statements are also useful summaries of your financial affairs, and you may use them in different ways:

- If you prepare a net worth statement about the same time each year, you will see how your total net worth changes from year to year. You will want to see if your assets are increasing and your debts are decreasing from year to year – that is, if you are building wealth.
- If you have both investments and debt, it may not always be clear whether you are spending more money than you have coming in. If your net worth has declined from the past year, this can signal to you that you need to make adjustments to live within your income and provide for savings.
- If your objective is to analyze your retirement plan, you may be interested in the present and projected future values of your investments as totaled on the statement.
- The estimate of your home and contents may help you decide how much homeowner's insurance you need to purchase.
- The total of your liquid assets (assets that can be quickly converted to cash) may provide information about how well prepared you are prepared for a financial emergency or loss of income.
- You may also be asked to fill out or provide a net worth statement when you apply for a home or auto loan, or talk to an estate planner.

Use the worksheet, "Net Worth Statement," (factsheet SP612-B) to calculate your net worth.

Step 1: Calculate the value of your assets.

- Car values are published by the National Automobile Dealer's Association and by Kelly Blue Book. These publications are available in most libraries, at car dealerships and at lending institutions. You can also find sites on the Internet that list auto values.
- The cash value of a whole life insurance policy can be found on a schedule in the policy. It is also available from your insurance agent. The cash value is the amount of money the insurance company would return to you if you terminated the policy today.
- Values of annuities are available in annual reports or periodic statements, or from your broker or insurance agent.
- Estimate the value of consumer goods by using information from second-hand shops and from classified ads. Use conservative estimates because it is not always easy to sell used possessions.
- The value of collections and jewelry can be estimated by dealers.

Step 2: Calculate your liabilities.

- The balance owed on installment debts or credit cards is listed on monthly statements. If not, the balance can be obtained from the creditor.
- The principal owed on a mortgage or real estate loan is available from the mortgage holder.

Step 3: Subtract the value of your liabilities from the value of your assets to determine your net worth.

*"You can't manage what you can't measure."
-William Hewlett*

Visit the UT Extension Web site at
<http://www.utextension.utk.edu/>

07-0200 SP612A-5M-3/07(Rep) E12-5315-00-032-07

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